



Designing a Military Force Shaping Tool

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Outline

- Why Navy Needs a Force Shaping Tool
- Design Considerations
- Summary

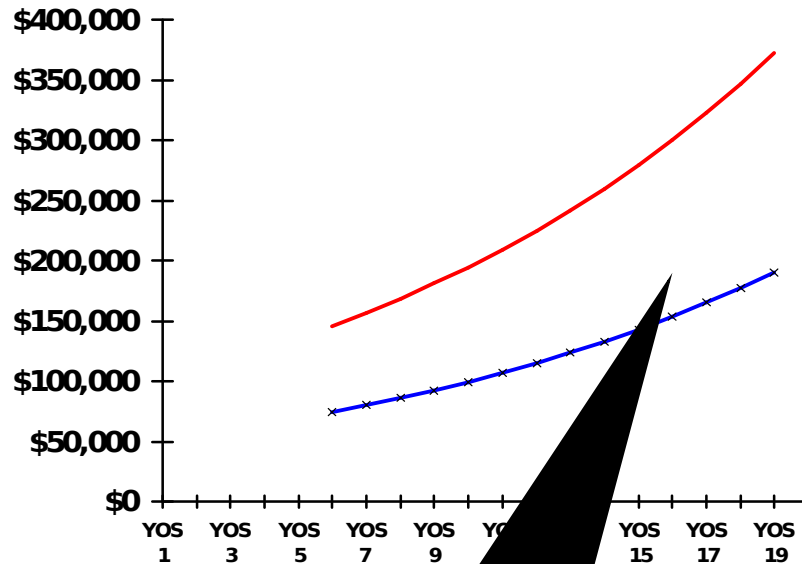


Need For New Force Shaping Tools

- **Previously existing “voluntary” tools (VSI/SSB and TERA) have several shortfalls**
 - Authority expired (OSD, OMB do not support renewal)
 - Inefficient - targeted wide-scale drawdown
 - Costly to implement
- **Current “involuntary” tool (Selective Early Retirement)**
 - Expensive in terms of morale and future retention
 - Last experience with SER was very negative
 - Only able to target retirement eligible population
- **Present requirement**
 - Permanent authority to be used sparingly
 - Surgical reductions to eliminate/reduce skills overcome by technology, changing demand, or world events

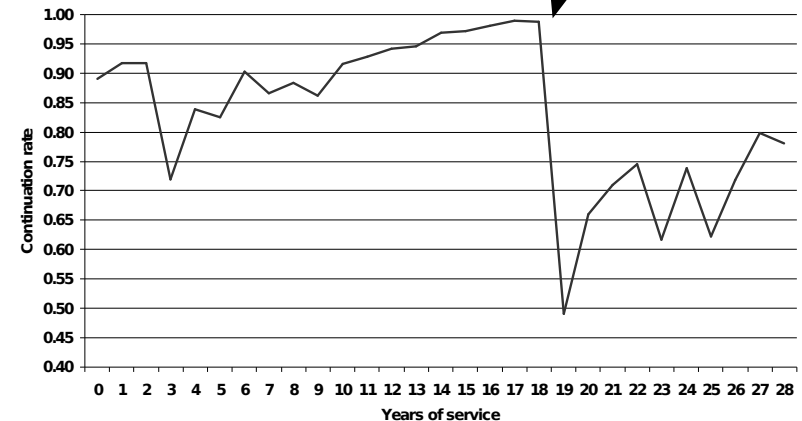


Retirement System Creates Retention “Cliff” That is Hard to Affect



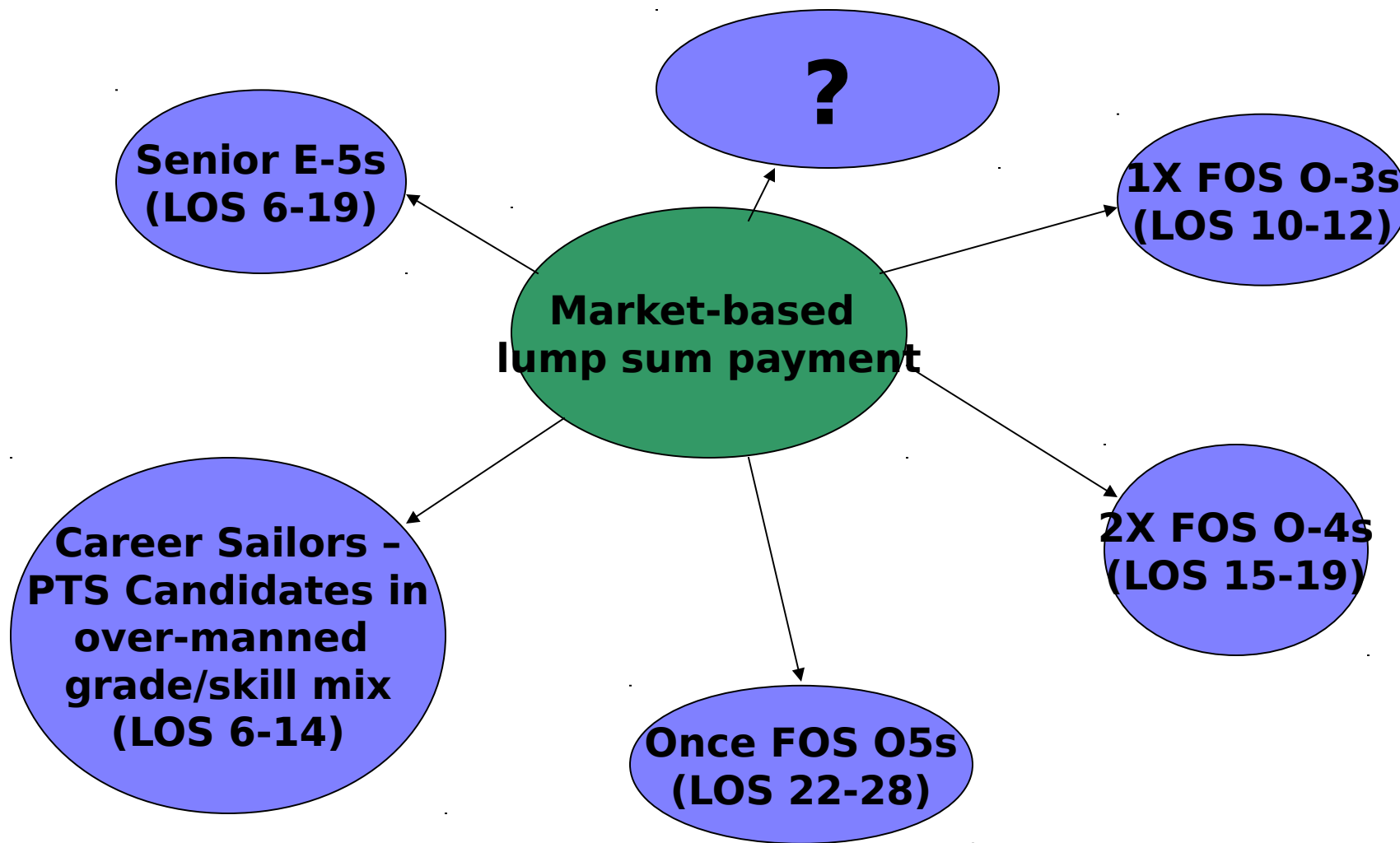
Value of retirement increases

Retention remains high until retirement point





Potential Target Populations





Design Objectives

- Voluntary
- Flexible
 - Offer coverage for wide range of force shaping issues
 - Allow quick response to problems
- Cost-Effective
 - Minimize economic rent
- Targeted for Quality
 - Keep best people
 - Don't penalize stayers



Design Features

- Price-Setting Mechanism
 - Fixed (e.g., VSI/SSB)
 - Adjustable (e.g., SRB)
 - Auction-based (e.g., AIP)
- Eligibility Determination
 - Targeted to define just the population of interest
 - Adjust timing, eligibility window
- Payment Philosophy
 - Lump-sum vs. annuity
 - TSP provisions
 - Other benefits



Alternative Price-Setting Mechanisms

- Fixed program
 - Modified VSI/SSB/TERA Approach
 - Buyout can vary by skill, LOS, grade but are fixed in law once established
- Progressive Auction
 - Navy sets initial price low; adjusts upward until desired separations attained
- Sealed Bid
 - Navy sets eligibility criteria for each auction and maximum amount payable
 - Specify time period and number of separations sought
 - Eligible personnel asked to submit bids $<$ max. amt.
 - Low bidders selected; all paid bid of highest bidder of selectees
 - Does quality affect outcome?



Eligibility Determination

- Define Eligible Pool by
 - LOS
 - Grade
 - Skill
 - Quality within Skill
 - Selection for promotion
 - PTS
- Ensure that high quality members Navy wishes to retain aren't penalized for staying
 - Incentive targeted to those with diminished future opportunities within the Navy



Alternative Payment Philosophies

- Lump-sum
 - Economically efficient
 - Most personnel in LOS 6-19 not ready to “retire”
 - transitioning to civilian career – lump-sum will provide adequate compensation for years of service
 - Personnel receiving lump-sum can create their own pension fund by transferring money to TSP
 - Avoids long-term, ongoing obligation by the government
 - Avoids cost of monitoring, managing pension payments and other retirement benefits
- Annuity
 - Less immediate budget impact
 - May be partially funded by military retirement fund
 - Some may prefer (more like current retirement system)



Summary

- Navy needs force-shaping tool that is
 - Flexible
 - Voluntary
 - Cost-effective
 - Targeted
- Properly designed, tool can be used by all Services
 - Requires market-based price-setting mechanism
 - Flexibility to target eligible pools
 - Cost-effective payment mechanism divorced from retirement system